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May 19, 2006

2006-144-G

\*ALSO ADMITTED IN TX  
\*\*ALSO ADMITTED IN VA

**VIA HAND DELIVERY**

The Honorable Charles Terreni  
Chief Clerk/Administrator  
**South Carolina Public Service Commission**  
101 Executive Center Drive  
Columbia, South Carolina 29210

RECEIVED  
MAY 19 2006  
PSC SC  
DOCKETING DEPT.

RE: Emergency Joint Petition of South Carolina Electric & Gas Company and South Carolina Pipeline Corporation for authority to continue SCPC's natural gas hedging program on a limited basis for the purpose of assigning all rights, privileges, obligations, gains, losses, and costs thereof to SCE&G.

Dear Mr. Terreni:

Enclosed for filing on behalf of South Carolina Electric & Gas Company ("SCE&G") and South Carolina Pipeline Corporation ("SCPC") are the original and ten (10) copies of the verified **Joint Petition** of SCE&G and SCPC in the above-captioned matter. Please acknowledge receipt of this document by date-stamping the extra copy that is enclosed and returning it to me via our courier.

SCE&G and SCPC believe that the South Carolina Public Service Commission ("Commission") is not required to issue a public notice concerning this matter and therefore may consider this petition and render a decision thereon at its earliest convenience. Accordingly, SCE&G and SCPC respectfully request that the Commission schedule this matter for disposition at its earliest convenience.

By copy of this letter, I am also serving the South Carolina Office of Regulatory Staff with a copy of the enclosed Joint Petition and attach a certificate of service to that effect.

(Continued . . .)

The Honorable Charles Terreni  
May 19, 2006  
Page 2

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If you have any questions or need additional information, please advise.

Very truly yours,

WILLOUGHBY & HOEFER, P.A.

  
Mitchell Willoughby

MW/amw  
Enclosures

cc: Nannette S. Edwards, Esquire (via hand-delivery w/ enclosure)  
Wendy B. Cartledge, Esquire (via hand-delivery w/ enclosure)  
Martin K. Phalen (w/ enclosure)  
Catherine D. Taylor, Esquire (w/ enclosure)  
Patricia Banks Morrison, Esquire (w/ enclosure)  
Kenneth R. Jackson (w/ enclosure)  
George Fasano, Jr. (w/ enclosure)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**

**DOCKET NO. 2006-144-G**

IN RE:

Emergency Joint Petition of South )  
Carolina Electric & Gas Company and )  
South Carolina Pipeline Corporation for )  
authority to continue SCPC's natural gas )  
hedging program on a limited basis for the )  
purpose of assigning all rights, privileges, )  
obligations, gains, losses, and costs )  
thereof to SCE&G. )  
\_\_\_\_\_ )

**JOINT PETITION**

RECEIVED  
MAY 19 2006  
PSCS&G  
DOCKETING DEPT.

South Carolina Pipeline Corporation ("SCPC") and South Carolina Electric & Gas Company ("SCE&G") (collectively, the "Petitioners"), pursuant to S.C. Code Ann. § 30-4-80 (1991), S.C. Code Ann. § 58-5-210 *et seq.* (1976 and Supp. 2005) and 26 S.C. Code Ann. Reg. 103-834 (Supp. 2005), hereby jointly petition the South Carolina Public Service Commission ("Commission") for emergency and immediate authority to continue SCPC's natural gas hedging program on a limited basis for the sole purpose of assigning all rights, privileges, obligations, gains, losses, and costs thereof to SCE&G. Financial gains, losses, and costs incurred by SCPC in continuing to operate its Commission approved hedging program for SCE&G shall be charged or credited to SCE&G on a periodic basis. Any gains, losses, and costs shall be included in SCE&G's cost of gas.

Petitioners do not believe that this is a contested case as defined in S.C. Code Ann. § 1-23-310(3) (2005). Accordingly, no notice to the public at large is required. Any hearing, if any, that the Commission may choose to conduct should only involve the Petitioners and the South Carolina Office of Regulatory Staff, all of whom agree to waive

any advance notice requirements, if any, and proceed to hearing upon immediate telephonic or electronic mail notice.

In support of this Joint Petition, the Petitioners would respectfully show unto the Commission the following key facts and would request of and apply to the Commission for the following relief:

1. SCE&G is a corporation organized and existing under the laws of the State of South Carolina. Further, SCE&G is a public utility, which provides, among other things, natural gas services under the provisions of Chapter 5 of Title 58 of the South Carolina Code. As a natural gas distributor, SCE&G is subject to the jurisdiction of the Commission.

2. SCPC is a corporation organized and existing under the laws of the State of South Carolina. Further, SCPC is an intrastate pipeline company currently operating wholly within South Carolina, under the provisions of Chapter 5 of Title 58 of the South Carolina Code, and is subject to the jurisdiction of the Commission.

3. Corporate legal counsel for both companies in this proceeding are as follows:

Catherine D. Taylor, Esquire  
Patricia Banks Morrison, Esquire  
**South Carolina Electric & Gas Company**  
1426 Main Street, M/C 130  
Columbia, South Carolina 29201  
(803) 217-7880  
cdtaylor@scana.com  
tmorrison@scana.com

4. Petitioners' private legal counsel in this proceeding are as follows:

Mitchell Willoughby, Esquire  
K. Chad Burgess, Esquire  
**Willoughby & Hoefer, P.A.**  
PO Box 8416  
Columbia, South Carolina 29202-8416  
(803) 252-3300  
mwilloughby@willoughbyhoefer.com  
cburgess@willoughbyhoefer.com

All correspondence and any other matters of any kind relative to this proceeding should be addressed to the Petitioners' authorized representatives as stated hereinabove.

5. To meet the demands of its customers, SCE&G has entered into Commission approved contracts with SCPC, an intrastate pipeline company operating wholly within South Carolina, for the purchase and delivery of all of SCE&G's natural gas supply requirements. In order to meet its obligations under these contracts, SCPC purchases natural gas in the interstate gas markets and transports it to South Carolina using interstate pipeline transportation and storage services. Once the gas reaches South Carolina, SCPC transports the commodity over its intrastate pipeline system and delivers it to SCE&G who in-turn transports the gas over its distribution system for delivery to its customers.

6. The volatility of prices in the natural gas industry has been testified to by the Petitioners on several occasions. Today, the natural gas market is an unregulated, open market that is both dynamic and extremely volatile. Because natural gas is an unregulated commodity, the forces of supply and demand largely determine natural gas prices; therefore, natural gas prices can rise and fall rapidly without much notice to gas buyers, such as SCPC or, following SCPC's planned transition to interstate jurisdiction, SCE&G.

7. Because the price of natural gas is so volatile, SCPC is constantly faced with the exposure of extreme price changes in a relatively short period of time, which can translate into unexpected price increases for SCPC's customers that in turn may lead to (i) social and economic costs associated with higher utility bills; and (ii) alternative fuel use and declining use per customer. Recognizing the volatile nature and dynamic tendencies of the natural gas market, SCPC implemented a hedging program in 1995, with Commission approval, designed to achieve the average market price of natural gas over time and to mitigate the impacts of price volatility. SCE&G has benefited from the reasonable and prudent operation of SCPC's hedging program since its inception.

8. In June of 2004, SCPC made a public announcement of the intention to merge SCG Pipeline, Inc. ("SCG") into SCPC to form a single interstate natural gas transportation company. Confidential settlement discussions resulted in a filing by SCG and SCPC on February 27, 2006 of an application requesting that the Federal Energy Regulatory Commission ("FERC") approve an offer of settlement negotiated with SCPC's customer group and grant the authorizations necessary to permit the merger of SCG into SCPC to form a single, integrated interstate pipeline operated under FERC jurisdiction to be called Carolina Gas Transmission Corporation ("Carolina Gas"). The application requested that FERC grant the requested relief by July 31, 2006, so that Carolina Gas may commence operations in advance of the 2006-2007 winter heating season. If the merger is approved by FERC, SCPC will no longer purchase gas supplies for its customers, including SCE&G, and consequently, SCPC will no longer operate a hedging program.

9. With the pending merger of SCPC and SCG, SCPC announced in its testimony filed in Docket No. 2006-6-G that it is not taking hedging positions beyond September 30, 2006, as it does not expect to be purchasing gas after that time.

In anticipation of approval of the joint application filed with the Federal Energy Regulatory Commission by SCPC and SCG Pipeline, Inc. and the commencement of operations as an interstate pipeline company prior to the 2006-2007 winter gas season, SCPC does not plan to purchase financial instruments for its hedging program beyond September 30, 2006. The financial instruments purchased by SCPC for its hedging program will expire on or before September 30, 2006, and no additional contracts will be purchased after that date as any such purchases would not qualify as hedges and would be speculative. However, if due to unforeseen events or circumstances commencement of interstate operations is delayed beyond the 2006-2007 winter gas season, SCPC will resume the hedging program at the approved level of up to 75% as long as SCPC continues purchasing gas for its firm customers.

Docket No. 2006-6-G, Direct Testimony of SCPC Witness John Beier, pp. 12 – 13.

10. After reviewing this testimony, SCE&G contacted SCPC and requested that SCPC seek Commission approval to continue to hedge gas purchases on its behalf for its supply needs beyond September 30, 2006. SCE&G also requested that SCPC continue to operate its hedging exactly as approved by the Commission and that all hedges placed on its behalf be executed for the sole purpose of assigning all rights, privileges, obligations, gains, losses, and costs thereof to SCE&G.

11. SCE&G is currently examining the desirability of implementing and operating its own natural gas hedging program in the future. However, before SCE&G's evaluation and determination is finalized, potential opportunities may arise under SCPC's hedging program for hedging gas supplies which SCE&G will use to serve its firm load in the 2006 – 2007 winter season. Accordingly, the continuation of SCPC's hedging program on behalf of SCE&G will serve as a bridge during this interim time period.

12. In order for SCPC to act on hedging opportunities identified by continued normal and customary operation of its approved hedging program , Petitioners hereby request authority for SCPC to immediately begin purchasing hedges for the account of SCE&G with maturity dates on and after October 1, 2006, as would normally and customarily be purchased under the Commission-approved hedging program for SCPC's own account. Also, in accordance with the existing Commission-approved program, this joint petition requests authorization for SCPC to hedge up to 75% of SCE&G's firm gas purchases for periods after October 1, 2006.<sup>1</sup> The gains, losses, and costs incurred by SCPC associated with each hedge made for SCE&G will be assigned directly to SCE&G on a periodic basis and SCE&G will include and either recover or credit such gains, losses, and costs in its cost of gas.

13. If and when SCPC ceases to purchase gas for its customers including SCE&G, any outstanding hedges made specifically for SCE&G under the request made herein would be assigned to SCE&G. SCE&G would accept those outstanding hedges purchased directly for SCE&G and would take full financial responsibility for those purchases, including the direct costs thereof.

14. Upon careful consideration of this issue, SCE&G has concluded that in order to mitigate the impact of the volatile nature and dynamic tendencies of natural gas pricing and to mitigate these factors in a reasonable and disciplined manner during SCPC's transition, the hedging program should be continued for the account of SCE&G at levels of up to 75% of SCE&G's firm supply. If the Commission grants the relief request herein, then SCPC would immediately begin to place hedges for SCE&G's account as would

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<sup>1</sup> The percentage of authorized hedges is derived by averaging SCE&G's firm purchases for the previous three-years.



normally and customarily be made through operation of its approved hedging program. Such hedges would be executed with maturity dates for periods on and after October 1, 2006, and SCPC would continue to operate the hedging program for the account of SCE&G until it begins interstate operations or until it is directed otherwise by SCE&G or the Commission.

15. Moreover, if the Commission grants the relief requested herein, then SCE&G anticipates that the Commission would review the prudence of SCPC's continued operation of the hedging program for the account of SCE&G in its annual review of SCE&G's Purchased Gas Adjustments.

16. In sum, continuation of SCPC's hedging program for SCE&G is in the public interest and should be authorized as requested herein.

**WHEREFORE**, having set forth its Joint Petition, SCPC and SCE&G respectfully request that the Commission issue an order (i) granting SCPC emergency and immediate authority to continue its Commission approved natural gas hedging program on a limited basis for the sole purpose of assigning all rights, privileges, gains, losses, and costs thereof to SCE&G; (ii) authorizing SCPC to credit or charge SCE&G on a periodic basis the financial gains, losses, and costs incurred by SCPC in continuing to operate its hedging program for SCE&G, (iii) authorizing SCE&G to include the financial gains, losses, and costs in its cost of gas, (iv) authorizing SCPC, on behalf of SCE&G, to purchase hedges with maturity dates on and after October 1, 2006, as would normally and customarily be purchased by SCPC for its own account under the Commission-approved hedging program, (v) authorizing SCPC to hedge up to 75% of SCE&G's firm gas purchases for periods after October 1, 2006, (vi) permitting SCPC to continue to operate

its hedging program for the account of SCE&G until it either transitions to interstate jurisdiction or is otherwise directed by SCE&G or the Commission and (vii) granting such other and further relief as is just and proper.

Respectfully submitted,



Catherine D. Taylor, Esquire  
Patricia Banks Morrison, Esquire  
1426 Main Street, M/C 130  
Columbia, South Carolina 29201  
Phone: (803) 217-7880  
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**Willoughby & Hoefer, P.A.**  
PO Box 8416  
Columbia, South Carolina 29202-8416  
Phone: (803) 252-3300  
mwilloughby@willoughbyhoefer.com  
cburgess@willoughbyhoefer.com

**Attorneys for Joint Petitioners**  
**South Carolina Electric & Gas Company**  
**and South Carolina Pipeline Corporation**

Columbia, South Carolina  
May 19, 2006

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**

**DOCKET NO. 2006-\_\_\_\_-G**

IN RE:

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authority to continue SCPC's natural gas )  
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purpose of assigning all rights, privileges, )  
obligations, gains, losses, and costs )  
thereof to SCE&G. )  
\_\_\_\_\_ )

**VERIFICATION**

BEFORE ME PERSONALLY APPEARED the undersigned officer of South Carolina Electric & Gas Company ("SCE&G") who, after first being duly sworn, states and avers as follows:

1. He currently serves as vice-president for gas operations for SCE&G.
2. He has reviewed the foregoing petition in the above-captioned matter and states upon his personal knowledge that the assertions and statements set forth in the petition are true and correct except for those matters stated upon information and belief and, as to those matters, he believes them to be true.


FURTHER AFFIANT SAYETH NOT.



Martin K. Phalen

SWORN to before me

this 19<sup>th</sup> day of May 2006.



Notary Public for South Carolina

My Commission Expires: July 7, 2014

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**

**DOCKET NO. 2006-\_\_\_\_-G**

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\_\_\_\_\_ )

**VERIFICATION**

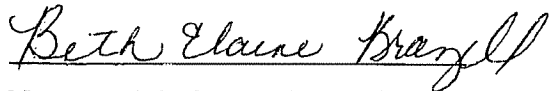
BEFORE ME PERSONALLY APPEARED the undersigned officer of South Carolina Pipeline Corporation ("SCPC") who, after first being duly sworn, states and avers as follows:

1. He currently serves as senior vice-president and assistant treasurer of SCPC.
2. He has reviewed the foregoing petition in the above-captioned matter and states upon his personal knowledge that the assertions and statements set forth in the petition are true and correct except for those matters stated upon information and belief and, as to those matters, he believes them to be true.

FURTHER AFFIANT SAYETH NOT.

  
\_\_\_\_\_  
George Fasano

SWORN to before me  
this 19 day of May 2006.

  
\_\_\_\_\_  
Beth Elaine Brazell

Notary Public for South Carolina

My Commission Expires: Oct. 18, 2013

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**

**DOCKET NO. 2006-\_\_\_\_-G**

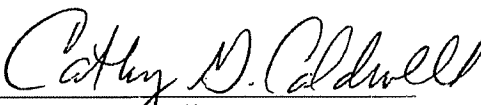
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thereof to SCE&G. )  
\_\_\_\_\_ )

**CERTIFICATE OF SERVICE**

This is to certify that I have caused to be served this day one (1) copy of the **Joint**  
**Petition of South Carolina Electric & Gas and South Carolina Pipeline Corporation**  
via hand delivery addressed as follows:

Nannette S. Edwards, Esquire  
Wendy B. Cartledge, Esquire  
**Office of Regulatory Staff**  
1441 Main Street, Suite 300  
Columbia, South Carolina 29201

  
\_\_\_\_\_  
Cathy G. Caldwell

Columbia, South Carolina  
This 19<sup>th</sup> day of May, 2006.